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FORMALISATION OF NEW ARRIVAL ENTERPRISES: Challenges of new ethnic entrepreneurship for business support policy

Executive Summary

Rationale

There has been little research carried out on ethnic entrepreneurship and the informal economy, especially among new and emerging ethnic minority business communities in the UK. Informality is however estimated not only to be an important phenomenon among these groups but seems also to underlie the existing gap between entrepreneurs and business support policies. This project identifies, localises, and characterises the new and emerging ethnic minority business communities in London. It then critically examines the nature of informality among these groups and the challenges that this poses to enterprise policy. The research methodology comprised a review of existing literature and case studies of new immigrant entrepreneurs (50 in total) and community-based organisations and business advisors (15 in total). Primary data was collected using semi structured interviews, field observations, and casual encounters with entrepreneurs and key informants.

Main findings

New ethnic minority business communities (NEMBCs)

- NEMBCs have emerged as a result of business developments by entrepreneurs from diverse ethnic groups which have recently settled in London, namely, The Horn of Africa, West Asia, China (mainland China), Vietnam, Latin America, and Turkish/Kurdish). Immigrant entrepreneurs are now evident from the world.
- The new geography of BME (Black and Minority Ethnic) enterprise comprises new agglomerations of enterprises, new activities developing around established market areas, single businesses, home-based activities and community economy; carnivals and festivals; and community-based organisations.
- Differences and similarities among NEMBCs relate to factors including emigration causes, migratory status of entrepreneurs, size and number of enterprises, economic activities and location, cultures brought in by immigrants, the socio-economic context found upon arrival and the subsequent patterns of settling and socio-economic integration into the UK.

New ethnic entrepreneurship: a different challenge in what sense?

- Distressing early experiences with reception organisations (i.e. migration authorities, Job Centres and National Asylum Support Services) set a negative precedent for future liaison and engagement with mainstream state agencies as well as business support organisations.
- The fact that entrepreneurs largely are 'pushed' into businesses affects the way in which businesses are set up and managed.
- Trust and credibility in business support organisations is further undermined as information and advice given by support agencies (i.e. Local Authority, banks, advice bureaux) is often considered 'useless' and 'a waste of time'.
- Prejudice against new arrivals, lack of time to visit support agencies and produce the paper work required and language confidence intimidate entrepreneurs from approaching agencies.
- The role that the informal support system plays in underpinning new ethnic entrepreneurship is fundamental so as to understand the form in which new BME businesses compete in the marketplace without accessing conventional sources of business knowledge and finance.
- Critical information and ongoing guidance during the start up process is accessed through the entrepreneur's personal ethnic network. Alongside entrepreneurs' savings, start up capital is generally facilitated by family and friends from within the community.
- Over-reliance on the 'community' not only makes the 'break out' from (co)ethnic market dependency harder for some entrepreneurs, but also makes the development of basic learning processes related to this somehow redundant.

Nature of informality

- Activities which are not fully registered with relevant government agencies (or cash-in-hand) and activities that however registered appeal to informal business practices, were the two main types of informal economic activity identified.
- Cash-in-hand businesses are found across-sectors but tended to concentrate on the 'home-based and home maintenance and construction, some of which is popular among female entrepreneurs (i.e. clothes making/selling and domestic services).
- Lack of awareness about registration procedures, uncertainty about the financial sustainability of ventures, the high costs of corporation tax/VAT, and the fact that some entrepreneurs do not consider themselves to be 'businesses', deters them from registering their business ventures.

- A distinction between cash-in-hand 'independent' and 'dependent' activities, that is, from formal and quite often large businesses, becomes evident.
- Employment contracts and, payment of corporation tax are the two main forms of informality identified among formally registered businesses. Responds of wages around if not below the statutory National Minimal Wage, long hours of work, and flexible 'contractual' agreements between employer and employee were common.
- The nature of business organisation, the sporadic nature of labour needed, the high rotation of employees, the shortfall of qualified 'legal' workers, the fact that undeclared work can be legally circumvented and the complexity of employment legislation are mentioned as factors that deter entrepreneurs from compliance with employment legislation.
- Corporation tax and VAT are seen as the most difficult of the taxes to pay as they have direct impact on the entrepreneurs' earnings.
- Lack of knowledge and adequate information, business size, likelihood of survival (if all profits are declared) and the express intent of evading taxes are the main factors that explain the failure of some entrepreneurs to declare taxable incomes.
- Three different styles of business organisation which are prone to informality are evident: the 'subcontracting model', the 'multi-business model' and 'micro shopping centre model'.
- The symbiosis that occurs in these market sites between informal and formal spheres of the economy can be benign, exploitative or mutually advantageous for both types of operators.

Policy implications

- Informality requires to be analysed from a more comprehensive and a less prejudicial perspective so that the positive and negative implications of business engagement with it can be examined, assessed and addressed accurately.
- Far from being only the result of rational cost-benefit calculations by the entrepreneurs, informality is the product of a much more complex set of factors and circumstances notably the nature of the official business support available and the role of the informal support system.
- While some factors and circumstances are specific to ethnic minority businesses others are ubiquitously present and cut-cross distinctions of ethnicity, social class, sector and location.
- Enterprise policy needs to combine the understanding and access of community-based organisations with the expertise of business support agencies as to facilitate engagement.
- Overall, an enabling policy approach is required to make the transition into the mainstream economy possible but without jeopardising the BME entrepreneurial capacity.
- Ethnically 'sensitive' one-stop 'formalisation' services which provide advice on finance, legal, tax, benefit, administration, marketing and book keeping through courses and workshops, may turn into a significant step forward to facilitate formalisation of small enterprises.
- Tapered financial support and tax relief/allowances are needed so as to alleviate business start up risks while encouraging smooth transition into the official economy.
- Enforcement policies targeting large companies which control chains of subcontracting should be promoted as they may cascade 'formalising' effects involving smaller informal subcontractors. Sector-specific policies can also support the formalising attempt.
- This battery of policies should act jointly with policies intended to formalise informal work so as to produce expected effects. Information campaigns to raise awareness about taxes and regulatory systems and benefits of formal work and enterprise are also required.
- However, a wide-ranging formalisation strategy should not be conceived in a social and economic vacuum, but instead in the framework of a more comprehensive welfare state strategy aimed to combat deprivation and exclusion which push new arrivals into informal employment and enterprise in the first place.
- The inherently contradictory and controversial nature of the informal economy may further hinder the formalising attempt since policy strategies pursued may turn politically controversial and yet, informal economic activities may remain rooted 'in the shadows'.

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